

Telecommunications Audit
Department Carrier Compliance

Communications

Missy Sue Mastel, CPA



60 Market Street, Suite
315 San Francisco, CA
94102

Tel. (415) 820-

FINAL
9070

Fax (415) 820-9075 missy
suc@masstel.com

Auditors Report: FCC Order 96-128

We have examined the accompanying description of the controls at *Next-G Communications, Inc. (NG)* applicable to recordkeeping, reporting, and payment provided to payphone service providers serviced through the switch. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of NG's controls as it related to PSP compensation, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and (3) such controls have been in place since December 31, 2005. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description of the aforementioned controls of NG, presents fairly, in all material respects except as noted below, the relevant aspects of NG's controls that are in operation for the quarter ending December 31, 2005. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that dial around compensation objectives, as documented in FCC Order 96-128, would be achieved if the described controls were complied with satisfactorily and third parties applied those aspects of internal control contemplated in the design of NG's controls, with the following exceptions;

- 1) We were unable to verify that the switch has consistent identification for every call, as we found 11 out of a sample of 162 calls that were recorded in the one type of switch record and were not verifiable in any database, including the underlying carrier's. We do not believe that this affects the accuracy of DAC compensation, however, we are expecting to clear this reporting matter.

This information has been provided to all interested parties. In our opinion, the and controls that we tested are operating with sufficient effectiveness to provide material and reasonable assurance that the control objectives were achieved during the period between October 1, 2005 and December 31, 2005, with the exceptions as noted above

The relative effectiveness and significance of specific controls at NG and their effect on assessments of control risk for PSPs are dependent on their interaction with internal control, and other factors present at PSPs and PSP aggregators, as well as the internal controls of third parties involved in NG's processing of PSP dial around compensation. We have performed no procedures to evaluate the effectiveness of internal control at any third party associated with this process.

The description of controls at NG is as of December 31, 2005 and information about tests of the operating effectiveness covers the period from October 1, 2005 to December 31, 2005. Any projection of such information into the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specific controls at NG is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that (1) changes made to the system or controls, (2) changes in the processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions,

This report is intended solely for use by management of Next-G Communications, PSPs and other vendors of interest, the FCC in verification of fulfillment of Order 96-128, and the independent auditors associated with such organizations.

Sincerely,

A handwritten signature in black ink, appearing to read "Missy Sue Mastel". The signature is written in a cursive, flowing style.

Missy Sue Mastel, CPA

Section I: Overview of Operations and Internal Control Features

Overview of Operations

DAC is the system whereby owners of payphones are compensated when a user places a calling card or other dial-around service to place a long distance call. Every time a person uses a payphone to place a long-distance call and dials a long-distance company other than the one assigned to the payphone, the dialed company must pay the payphone owner a fee. Payphone service providers and aggregators bill the SBR or ULC by providing a list of ANIs, and the LEC and SBR match those ANIs to Call Detail Records (CDRs) from the switch, and pay on all calls that require compensation. Since payment is only due on completed calls of a certain duration when dial around services are used from specific payphone ANIs or phone numbers, the carrier's CDR program captures all relevant data pertaining to whether the call requires DAC or not.

While Next-G has been operational since 1999, procedures for compensating the PSPs were the responsibility of the underlying interchange (IXC) carriers through December, 2003, and afterward by the first switch-based reseller handling the call. Thus, the underlying IXCs continued to bill for PSP compensation through until June, 2004. As such, Next-G Communications has only recently begun to perform DAC activities.

In the quarter under review, Next-G Communications was invoiced by thirteen separate PSP consolidators for all DAC requests. All carriers and their associated PSPs were reconciled and paid using in-house processes. We will perform procedures on these processes as it pertains to the accuracy, timeliness and completeness of the records for DAC.

General Operations

Next-G Communications sells prepaid calling cards under a variety of affinity programs through four separate carriers, although the predominance of traffic is carried by MCI. Each type of product has its own 800 number provided by the underlying carrier, which connects to the NG switches. These 800 numbers are printed on cards and sold to end users. Thus, all the calls processed through the Next-G switch are coinless calls, although both payphone and hotel phones are common service providers. At the time an end user places a call, the 800 number connects the call on the underlying carrier network, directs the call to the Next-G switch, where the call is received, authenticated, and then sent for termination over a Least Cost Routing mechanism to complete the call. The Next-G switch authenticates both the user, via PIN, and the termination number, via answer supervision, before it registers the call as connected.

NG uses 12 switches maintained in the Houston area, processed by two separate outsourced platforms. We have not performed any testing to determine the accuracy of the processes at the outsourced vendor platforms, since their only function is to take the

calls and map the information generated by the system into .csv field formats. As call records *are* processed, the information relating to origination, requested termination, header time, and talk time are filed in the switches platform database, and then downloaded either real-time or in daily batches to the mainframe database. Next-G is currently transitioning all traffic to the real-time processor.

As a switched based reseller, Next-G Communications has had limited direct relationships with PSP or PSP aggregators prior to 2004. Overall, payphone service providers have relationships with the LEC, and process claims for DAC with the LEC servicing the phone. The LEC, in turn, invoices the SRR, or facilities based-reseller by tracking the delivery of the call to the switch. NG reconciles the amount against completed and compensate calls in their switch, and pays the LEC who in turn reimburses the PSP. For APCC and other PSP aggregates, invoices of all ANIs in operation are sent directly to Next-G, who then reconciles this list against call made to determine earned compensation. ANI ownership disputes between PSPs are by federal guidelines to be managed by the LEC, although in-house procedures for ANI dispute resolution have been developed.

General Reconciliation Process

NG's reconciliation processes include managing the PSP vendors, receiving invoices relating to the BTNs under management by the various payphone providers and their associations, and submitting payments and claim reports, to PSP and PSP aggregators. The PSP submits their ANIs and invoices, if available, to NG. Since Next-G Communications is an SBR, and not the LEC, they do not validate ANI ownership records or databases.

PSPs and LECs invoice their payphone surcharges quarterly, in one of three formats:

- 1) CO Rom or disk billing
- 2) Paper, or
- 3) In a unified invoice from an aggregator,

For APCC PSPs and the disk tollers, a list of phone numbers, or ANIs, is sent representing the phone numbers that are owned and operated by the PSPs and are thus eligible for DAC. The carrier or PSP representative lists all possible numbers, and leaves it to the reconciliation process to locate those phone numbers on CDRs and verify compensate calls,

For switch reconciliation

Each switch downloads the CDRs to the .csv database, which then prepares and processes the call detail for bill reporting. These daily loads are saved into two databases and the databases and related queries are stored on magnetic tape on a monthly basis. These reports are backed-up monthly and kept in the system for three months at a time. Every quarter, the PSP invoices are loaded and cross-referenced against the quarterly CDRs and generates the Payphone Summary Report, using parameters that ensure that all eligible compensation calls appear. These reports generate CDRs

that originate from invoiced ANIs, come in on carrier specific trunks, and have a 07, 27, 70, or 29 in the info ID field.

29 is an uncommon digit identifier since it indicates a prison payphone, 00 flics are also reviewed for payphone services, in case these digits are forced over to accommodate a programming mismatch for a COCOT line. As files are sorted mainly on the AMI lookup and call date (to fall within the appropriate quarter) 00 calls are called out and further investigation is performed.

The database generates the payphone flag from the info digit field, so that while a payphone indicator field is present, it is not used to filter the calls that are then compared to the ANI look-up table for DAC. Thus, NG uses a complete database of call detail records for comparison with the invoices from the PSP. Appears reasonable,

NG performs reconciliation on a quarterly basis, whereby they compare ANIs reported by the PSPs to the database of calls provided by the switch reports, and validate the claims for payment by the PSPs. Since the PSPs invoice the carriers, the database used to determine which ANIs belong to which payee are the PSP invoices themselves. When two PSPs or aggregators file disputing claims for the same ANI, the item is paid to the first PSP and notification is sent to the alternative PSP in case they want to file a dispute. Dispute procedures are published to the NG website and PSPs are required to provide third-party validation for their ownership. Appears reasonable.

Claim reports sorted into various spreadsheets by carrier, by check, and by submission are available and are reviewed by the financial directors of the SHR., and once the carrier validates the report and the total, the agreed-upon amount is paid via wire transfer. NG makes payment to the PSPs and aggregators accordingly.

Reconciliation is an automatic process, and summary reports detailing the ANI and all associated compensate calls are prepared. A brief summary report totaling calls per biller is prepared and checks are cut from that report.

Next G Communications is in compliance with procedures to identify CIC codes for the calls processed. We note that the PSPs use this information to prepare inaccurate invoicing based on the number of calls sent to the SBR by the underlying carrier. While there are discrepancies between the call count that was sent from the carrier and the final paid amount, most of the discrepancies between the carrier invoice and the CDRs stems from complete vs. incomplete calls. The reporting received from the underlying carriers are unable to capture calls completion information, which is why the FCC has mandated that the proper DAC can only be determined by the completing SBR. Appears reasonable.

We noted that NG does not perform any review of the ANI payment to ensure against calling fraud. Per discussion with Software Engineering, NG relies on the PIN authentication process to establish the validity of each call, and thus does not review their reconciliation work for fraud. We reviewed

the last two reconciliations and reports and did not see ANIs with excessive usage. We noted that CDRs that do not have infodigits were in prior quarters considered questionable, and that these ANIs were sent back to the PSPs to inquire as to why the ANIs were no send over payphone infodigits, While this

may or may not be fraudulent billing, we trended these types of underreported calls, noting that they represent less than 1% of total payphone calls. Given that the PSP is given the opportunity and information required to correct the information collected and thus get paid, and the immateriality of the exposure, we believe that either the current fixit procedure or payment are both reasonable reconciliation procedures. We did however, recommend a potential fraud check in their system, currently set to 720 calls per AN1 per month—any AN1 reported that has an excess from is called out as an exception and further investigation is undertaken. As failure to detect this fraud would result in overpayment to the PSP, we have suggested that they perform this review each month. Appears reasonable.

Processing Detail

As end-users dial calls using the 800 numbers on the prepaid calling cards from NG, the Excel switches receive the calls from the originating carriers based on capacity and 800 number provider programming. When the 800 provider sends the call to the NG switch, it sends the info digit and the 10 digit AN1+DNIS. The switch control host controls the switch and authenticates the call and the user PIN, and accepts the terminating number. Once the termination number is entered and validated, it is sent out over Least Cost Routing programming. A call record generates at the time the call hits the NG switch, recording the header information, including origination, routing, time stamp, program, product rate and termination information. If answer supervision is attained, then the talk time begins to record. The call record completes when the call is terminated, and is updated to the switch database in real time. Calls are attempted for 60 seconds before the call is considered incomplete.

If the connection between the Switch Control Host and the Switch Database is broken, switch control maintains the CDR in backup until it can reconnect with the database. The Main database server imports new CDRs and transaction records from all 12 Excel switches in real time. The number of imports running in real time is also monitored, and discrepancies are notified. Daily CDRs are collected in a .csv database.

On the third of each month, Subba Katikreddy, Billing Analyst, runs reports out of the Excel 1 switch sorted by carrier and date. These reports are .csv run from the database servers. PSP contact and ownership information is relayed to the SHR as part of the invoicing process, and thus cannot be third-party validated by NO. We further note that disconnects and AN1 reconciliation are not the responsibility of Next-G Communications. When ownership of an AMI is in dispute, NG will pay the first owner noted. In the case of PSP aggregators, NG leaves the reconciliation of ownership to the aggregator and the LEG. Appears reasonable.

Data Integrity

Per Joey Harrow, Network Engineer, all records have been kept since inception. Information related to CDRs is maintained live at the switch database for three months,

and the main databases keeps records for three months,. After this period, all files are compressed and burned to CD and stored *at an offsite location*. Regular testing of the back-up data integrity, including uploading the offline database to an archive server and restoring the data to a server which is running .csv, is not performed regularly, however we recommended that procedures be implemented to test back-up data, Appears reasonable.

Reconciliation Process Detail of DAC for PSPs

The Payphone Service Providers Submit their ANI information either directly to NG or through aggregates and IXC's. PSPs are able to make claims against the current and prior 6 quarters.

As the LEC does not Send ownership information for the payphones, the LEC and the aggregators remain responsible for validating the ownership and payment information coming in from the LEC and the PSPs. Ownership information sent to the carrier by the PSP is trusted to be accurate, and only questioned when competing claims are received for the same ANI. NG updates existing ANI look-up tables with new invoices sent in each quarter by the carriers/PSPs for changes to the information and disconnects that are processed each quarter. A Utility program is used to process the disconnect files and updates to the ANI data.

NG then runs the updated ANIs against the CDRs for the quarter to match ANTs, and the payphone detail reports are created. The reports created are stored and archived to CD. All the invoices are processed together as one look-up table to prevent duplicate payment for a dual-paid ANI. Calls are sorted into categories by PSP and LEC, or SBR, and invalid claims, or calls for which ANI invoicing has not been received, are kept in suspense account in case the PSP will make a later claim on them.

Discrepancies in ANI reporting, as when a number is claimed by more than one party are attempted to be resolved first by comparing the data, to prior quarter is used to try to identify the owner. If there is no way to substantiate one claimant over another, the first claimant is paid. The PSP is then able to file a dispute with NG by providing documentation of their claim,

Once the errors have been corrected, ANI status report files are created for each PSP summarizing the ANI, and the amount paid, and the underlying carrier, satisfying the reporting requirement to the PSP. NG relies on the PSP aggregator, IXC, or IXC to distribute payments to their constituency. An ANI Master List File is not provided by the LEC, and thus NG cannot validate ANIs assigned to PSP IDs and other ownership information. We suggest that, ownership information needs to be validated by the LEC, or materials; to validate ownership need to be provided by the LEC.

At any time during the quarter, the PSP aggregator or LEC may submit new information relating to the ownership of certain ANIs, and they are incorporated into the quarter being processed and run against the prior 6 quarters, as noted

above.

Cat! Records

Next-G Communications ensures the completeness and accuracy of the call records through their CDR gathering process.

Ncxt-G Communications sells 800 service for calling cards to their customers, including LECs and other SBRs (switch based resellers) who want to offer 800 based calling cards to their customers. These numbers are then printed on cards and sold to end users. Thus, all the calls processed through the Excell switches are coinless calls, although both payphone and hotel phones are common service providers.

Each 800 DN1S (that hits the switch is preprogrammed to a single customer's account for a specific product. If an 800 number is dialed, sent over the carrier and the NG switch does not recognize it, it is not processed by the Excell Switch. All 8XX calls that originate on the carrier's network are routed via LCR for termination of the dialed number.

Per Joey Harrott, each group of the Excell Switches are managed through a Switch Control Host, which controls the actions of the switch and begins documenting the CDR with the receipt, of the info-digit and ANI+DN1S. When calls are terminated, the CDR is recorded as complete and sent real-time to the switch vendor database, where it is converted to daily field ,csv files. For each CDR, the system generates fields to identify the origination and completion information on the call. These are set up through logic that is programmed into the switch vendor software,

- * IOLL/undef 4-identifies what the service originating the call, 07, 27, 70, 29 and sometimes 00 are the proper identifiers for payphone services
- rateddur - This is the only indication that the call has actually been picked up by the receiving party. In many instances, the LEC will invoice for delivered calls, which are calls that pass through their switch, but will not be able to determine whether the call has been completed. This is the main discrepancy that occurs in the I-EC billing, and support for Next-G Communications's claim is based on this field. We suggest that a completion flag be added to the fields to give a binary representation and sorting capacity for call validation purposes.

We note there are no dial-around fields since the caller has already selected Ncxt-G as the prepaid carrier, and NG uses least, cost, criteria to route the end-user call. Appears reasonable. The Switch Control Host will attempt completion for up to 1 minute before determining an incomplete call, which is recorded in the duration field.

The call records sent over are then run against the ANI invoice look-up tables for the quarter, and the calls are allocated to PSP and LEC, as required. Quarterly

reports are generated 65 days after the quarter close to indicating what, is being paid out to the LECs, IXC's and the aggregators on behalf of thePSPs.

When PSP payments are approved via the report, the payment schedule files are used to create a spreadsheet that is sent to the accounting department to process checks. The files are also used to create Payment Summary Reports that are sent to the PSPs with their check.

Once payments are sent, the CDRs are marked as paid in the system, archived and closed out of the open item reports, thus recording which calls have been paid upon, and which remain outstanding due to no claims or disputes. Disputed calls are generally paid to the vendor of record, where prior claims can be used to determine status. All NO CLAIM calls, where the CDR reflects a AMI that is not appearing on any invoice are accrued for possible prior quarter billing.

When a quarter becomes ineligible for payment request, unpaid Call Records are marked as Expired on the open item report, and all unclaimed call records are expired by the program. Per Joey Harrott, Next-G Communications was historically overhilled by the carriers, as they cannot, discern complete v. incomplete call records, As such, expiration of unclaimed calls has not been an issue to the date of this report.

Quarterly information is stored indefinitely.. Stored databases should be analyzed periodically to ensure that the data remains intact. The switch records are stored by Next-G Communications, and need to be analyzed to ensure that they remain intact.

Disputes

[fa PSP or aggregate!" has a dispute about the payment made, the PSP can request that its original file (or a newly submitted File) be checked in greater detail. As stated above, most disputes are related to either AN.I ownership or incomplete calls. NG has a process by which they will request the disputing PSP provide ownership documentation and submit signed documentation from both the overpaid and the underpaid parties that agree upon the ownership of the payphone. If this information is not available, NG requests the PSP passed on the dispute to the LKC to try to obtain additional information and resolution. Appears reasonable.

Next-Cii Communications currently has disputes that result from billing of incomplete calls. We have performed agreed-upon procedures to report on the completion rate of calls, noting that the completion rate for payphone calls does not vary materially from the completion rate for other types of calls, and total calls.

For prior quarters still under management at Ncxt-G Communications, Ncxt-G Communications continues to manage based on the billing issues relating to UAC.

Internal Controls

Control Environment and Organizational Chart

Joey Harrott, Database Engineer, and Network Telco and Rubix, the switch control vendors, are responsible for programming the switches and the switch control hosts, and ensuring that the network remains up and running. Only 5 people have access to the Excell switch interfaces and the .csv database, including Mr. Subba Katikreddy, Billing Analyst. *Mr. Katikreddy builds the fao-k-up ami reconciliation functions for heating info digits and other information relevant to the DA C system. Ail Menus is limited to specific tanks, user-profiled, and secure. Personnel with programming access for the database are not the same as personnel with network control. Afo one at Next G has access to change payphone*

Zee AR, Controller, receives the invoices from the carrier/LECs and the PSPs, and forwards the invoices to *Mr. Katikreddy* for processing. The invoice disks are used to update the ANT Master Lists by Mr. Katikreddy's staff for changes in ownership and disconnects, and then are processed against the quarterly CDRs. The invoice payment report is sent to Mr. Harrott, for review, who reviews the reports before sending them out to ensure that they appear materially accurate and that there are no large or unusual aspects to the report before they are sent over. If there are discrepancies, Mr. Katikreddy is asked to rerun the report, and then the report is reviewed manually. Mr. Zee AR, Controller, then processes for payment via check.

The payment detail report is received within 65 days after the quarter end, it is reviewed by Zee AR and is both trended against prior quarters for reasonableness and reconciled against summary monthly reports on payphone records collected. Additionally, a completeness percentage report is run to ensure that the percentage of call complete trends accurately from one quarter to the next. Payments are made to the PSPs by the end of the month. As approval and preparation of reporting information are kept separate, there appears to be little room for internal employee fraud outside of collusion. Invoices from the PSP are due by 30 days after the quarter end, so that the PSP can be paid by the last day of the next quarter. Appears reasonable.

We note that the NG reconciliation process and the overall integrity of the DAC system rely on several internal controls to ensure the integrity of the system. These controls are communicated and complied with by Next-G Communications in the following:

General Contract and Regulatory Requirements

NO has warranted via letter signed by senior staff that the company and their representatives are responsible for maintaining compliance with laws, regulations, tariffs, and other general requirements in the course of doing

business. Nexl-G Communications has provided documentation that they recognize these requirements and understand their responsibilities to comply with them. The integrity of the compensation system requires

that NO remains in compliance with all their attestations under the agreement. We also obtained and reviewed an executed copy of this letter, which indicates that the parties understand their obligations. Appears reasonable,

Access Controls

Ncxt-G Communications has maintained sufficient controls over who has access to switch and the reporting systems and under which circumstances changes and updates can be performed. The controls in place include:

- Limited access to switch and reconciliation processes
- Segregation of duties among report generation, reconciliation, and payment approval

Appears reasonable.

File Completeness and Timeliness

Next-G Communications provides complete files, including completed call records for payphone originated calls, and are responsible for the completeness, accuracy, and timeliness of the call record Files. The controls in place to provide such files are:

- Payphone logic that is standardized and verified
- Easily tracked sorting and filtering parameters
- Verification field in the reports
- Monthly reports are generated on the 5th of the subsequent, month

Payment Authorization

Ncxt-G Communications reviews reports for reasonableness and makes payments to PSPs and aggregators from the summary payment documents submitted. Proper approval is controlled by Zee AR, Controller.

Completeness of Records Processed

The Excell switches collect data that is transferred into the switch database real time, and tags all information to ensure that the transfer is complete. NG does not filter the CDRs for a payphone flag or infodigit, but processes the ANI look-up tables against all CDRs for ANI matches. Completion rates are tracked to ensure that the trend of call completion is consistent. We noted that we were unable to verify 6.7% of our sample as a result of switch record inconsistencies. While we do not believe this has an effect on DAC compensation, we have noted this as a qualification to our report, Appears reasonable.

Dispute Resolution

The FCC requires that a standardized process be in place to settle disputes that is data reliant, Next-G Communications requires consensual documentation

from all interested parties that the resolution is fair and accepted, PSPs and their aggregators are required to

provide whatever detail support may be necessary to validate any particular claim against a CDR or its DAC status. Appears reasonable

Payment Rate

All Next-G Communications Customers use the default rate with their PSPs, there are no exceptions, Because the reconciliation is done quarterly and each CDR is time and date stamped, the rate calculations are performed on the individual CDR. Internal controls testing relating to rate verification include validating on NG's summary report that all calls are included at the ,494 per eligible call rate.

Fraudulent Call ID

Next-G Communications relies on the authentication of the call via the PTN. Since the card needs to be bought to be used, the hidden PIN authenticates the user as a purchaser of the prepaid phone service, and has its own limitations in the amount of service available on that card. Thus, threshold per AN I are not considered necessary, and all calls made from a payphone are considered compensate. Appears reasonable,

Contingency Procedures

The switch information and CDRs are backed in internally in the switch control host if connection between the switch database and Bxcell switch is broken. The switch databases back up to the .csv database in the main server, and communications failure between these two systems resets the system to reload any untagged CDRs. Appears reasonable. Reconciliation processes are automatic., but do not. require special services or systems to perform, since the reconciliation is performed between raw data CDRs and billed AN Is in a lookup table. Since reconciliation procedures are performed in house, data and applications can be run from any server which is larger enough for the data being processed, thus could be replicated in the event of disaster. Appears reasonable.

Section 2: Significant Control Objectives

The principal objectives of the system of internal controls pertaining to recordkeeping, reporting, and payment verification are as follows:

- V Policies and procedures are in place to ensure payment rates conform to KCC rules, either by default or as agreed to between parties.
- > Policies and procedures are in place relating to reporting elements as required by FCC Order.
- > Data is stored for a period at least as long as required by FCC rules,
- > Procedures are in place to establish, corroborate and validate proper PSP ownership SBR.
- ** System reporting for all eligible calls is both accurate and complete
- * Specific personnel have been identified as responsible for drafting and maintaining necessary business requirements relating to NG system requirements.
- > Specific personnel has been identified for verifying compensation to PSPs
- >* Specific Personnel has been identified for handling dispute resolution with PSPs
- V Quarterly reports verified for payphone call counts, PSP identities, numbers called, and infodigits.
- r Procedures are in place to identify and investigate potentially fraudulent calls and are resolved.
- > Policies and procedures are in place to properly compensate all compensate calls originated from validated payphone AMLs. In addition, such reports are maintained for the period required by the FCC.
- ^ Policies and procedures are in place regarding controls over changes to applicable software, including persons responsible, management of the changes, and validation of such changes, ensuring that the changes do not negatively affect integrity of the records processed or the results of processing such records.

Description of Controls and Tests Performed

Our test of the effectiveness of the policies, procedures, and controls included tests we considered necessary to evaluate whether those controls, and the extent of the compliance with them, is sufficient to provide reasonable, but not absolute, assurance that the specified control objectives were achieved during the period between October 1, 2005 and [December 31, 2005. Our tests of the operational effectiveness of controls were designed to cover the period from October 1, 2005 through December 31, 2005.

Test procedures performed in connection with determining the operational effectiveness of controls are described as follows:

1. Corroborative inquiry - Made inquiries of appropriate personnel and corroborated responses with other personnel to ascertain the compliance of controls.
2. Observation - Observed application of specific controls,
3. Inspection of evidentiary material - inspected documents and reports indicating the performance of the systems and controls.
4. Transaction testing - Used reports to recreate and document controls.

Key Control Objectives

Key Control Objective

#1

Payment rates can either be based on a rate negotiated between the user and the PSP or the FCC default rate.

Tests Performed

- 1) NG calculates their DAC obligations based on the rates negotiated between the SBR and the PSP, or where applicable, the rates included in FCC Order 96-128. Per discussion with Zee AR, Controller, there are no agreements for alternative rates with PSPs. All rates at this point are the FCC default rate, which is currently .494 cents per compensable call.

We reviewed the DAC summary reports, noting that the calls paid for the quarter for PSPs of carriers processed by NG were at the default rate(s) of .494, based on the date. Appears reasonable,

- 2) For the remainder of the carriers, we reviewed the reconciliation NG performed against the LEC invoices, noting that discrepancies were based on number of calls,

but that every carrier is paid a minimum of .494 per compensate call. We found no exceptions. Appears reasonable.

Key Control Objective #2

Policies and procedures are in place relating to reporting elements as required in the ICC Order.

Policy or Procedure

Per discussion with Joey Marrot, Database Engineer, reports are prepared on a quarterly basis for use by LECs, SBRs, and PSPs detailing the tails that originate by AM, the amount paid per ANI, carrier IDs. Additional reports may be constructed for any party including AMI Master Lists, potentially fraudulent calls, dispute items, and other, as deemed necessary by any party.

Tests Performed

- 1) We did not see the reports prepared for the individual PSPs as they were not provided, but did validate the report prepared against the check amounts without exception
- 2) For the category "unclaimed ANIs", we noted that the detail for these calls was provided for accrual and investigation purposes.

Key Objective #3

Data is stored for a period of time as long as required by the ICC

Policy or Procedure

Through interviews with key personnel, we noted that all records are kept on the switch platform for three months, and live in the .csv database for three months. All CDRs are downloaded each month to text files, compressed and stored on CDs. Duplicate copies are made and kept forever. Per Subba, data integrity on these CDs has not been recently tested, but regular testing of the back-up data, including uploading the online database to an archive server and restoring the data to a server which is running an appropriate version of .csv, will be performed regularly.

Key Objective #4

Procedures are in place to establish proper PSP

ownership Policy or Procedure

Next-G Communications has only recently begun dealing with the PSP directly, and thus does not validate PSP ownership. To validate PSP ownership of the ANI being claimed by any specific PSP, the LEC is required to provide to BCI a list of all ANIs for which the LHC provided dial-tone service during the quarter. In this way, every claim for compensation should be verified by LEC information validating the owner and the ANI.

Test Performed

Procedures to validate PSP ownership or engage a third party to do so must be undertaken, and ultimately, tested.

Key Objective #5

System reporting for all eligible calls is both accurate and

complete Policy or Procedure

Because NG runs the ANI look-up tables against all CDR records for the quarter, the payphone flag is not used as a filtering system that might remove potentially compensable calls. *Since NG is a pure coMess facilities-based reseller, all calls with matching ANI are considered compensable. These programs produce a matched report which is then sorted for consistency with the AJCC reporting requirement*, and used to substantiate the payment. There are no discrepancies. The CDRs are also reviewed to ensure that the completion rate for all calls and the completion rate for DAC calls from prior quarters are consistent with the current DAC completion rate.* Payphone reports are validated and created before wire funds are transferred in payment,

Tests Performed

- 1) We interviewed personnel responsible for various aspects of the reconciliation process, including key personnel at NO to gain an understanding of the process and the internal control environment. Appears reasonable.
- 2) We reviewed the payphone logic and determined that the field parameters are sound.
- 3) We statistically sampled calls from the original .csv CDRs to the total payphone compensation report generated for ultimate payment. For our

sample, we noted that

the majority of the sample of proper infodigit calls tested appears on the NO report, with 6.7% of our sample being unverified. Per discussion with staff, we believe this to be an inconsistency in the records used, as the sample errors did not appear the underlying carrier database either, We will.

Key Objective #6

Specific personnel have been identified as responsible, for drafting and maintaining necessary business requirements relating to Next-G Communications system requirements.

Specific personnel has been identified for verifying compensation to

PSPs Specific Personnel has been identified for handling dispute re

solution with PSPs **Policy or Procedure**

Nexl-G Communications has substantially segregated and assigned responsibility for drafting and maintaining necessary business requirements, like switch program logic, report preparation and formatting, validation of payment to PSPs and validation of reporting to various parties within the Next-G Communications organization.

Tests Performed

We interviewed various personnel to understand their roles in the IJAC process, noting:

- 1) That Joey Harrott, Database Engineer, is responsible for all the validity of the initial CDRs
- 2) That Subha Katikreddy, Billing Analyst, runs the quarterly report in Informix for comparison to the AMI invoices of the PSPs
- 3) *That Subba Katikreddy, Billing Analyst, reviews the call records that were sent for payment validation to be consistent with the payphone infodigit CDRs that are presented through the switch originally*
- 4) That Zee AR authorizes the check run for PSJ¹ payment after review of the report sent by Joey Harrott,
- 5) That Joey Harrott is responsible for dispute resolution with carrier-customers and their PSPs, generating CDRs and reports that are used in dispute resolution, most often to validate the claims of incomplete calls that indicate a non-compensable call.

Appears reasonable.

Key Objective #7

Quarterly reports are verified for payphone call counts, PUP identities, numbers c and infodigite.

Policy or Procedure

Next-G Communications uses switch CDRs to compare to AM invoices from PSPs and generate payments for compensate calls. NO keeps monthly files of CDRs with payphone flags, ANTs, numbers called and infodigits so that originated calls with eligible DAC can be determined, and validated ANIs, non-validated ANIs, potentially fraudulent calls and calls with ownership issues can be identified.

Tests Performed

With the exception of ANI ownership testing, quarterly reports are reviewed for pertinent information and exceptions and unusual items are pulled for further investigation. We reviewed two quarters of reconciliation to determine the basis for disputes, which were all related to incomplete calls. Appears reasonable,

We tested the quarterly reports against the statistical sampling of data for the quarter, noting that the information from the CDRs was captured accurately as compensate or non-compensable calls. No exceptions,

Key Control Objective #8

Procedures are in place to identify and investigate potentially fraudulent calls and are resolved.

Policy or Procedure

All calls passed to the Next-G Communications switches required a PFN authentication and are limited in their abuse, given the nature of the prepaid phone card. Review procedures should include checking for ANIs with a high number of calls in a given month.

Tests Performed

We inquired of personnel whether any fraudulent usage had yet been identified, and there has been no abuse or customer service complaints relating to non-authorized calls. Given the pre-use authentication required, appears reasonable.

Key Control Objective #9

licex and procedure are in place to properly mmpunsaie all compensable calls originated from validated payphom ANIs: hi addition, , <xrch re [torts are maintained for the period required by the FCC.

Policy or Procedure

See the narrative on I)AC reconciliation and payment process above for greater detail. In summary, CDRs from the switch are sorted for matching ANIs, and these records are summarized in the appropriate format for the PSP or aggregator. Raw CDR data is used for determining compensable calls, LHC information related to ANI ownership is not gathered. The results are tested for consistency with historic completion rates. Next-G Communications reviews the report before wiring funds for payment of the PSP.

All data is now stored on CD offsite, and 3 months are stored live on the system. Per discussion with key personnel, this data will be taken out and restored to an active, but not live, server to test control loials and ensure that the call records remain unchanged.

Tests Performed

- 1) We interviewed personnel responsible for various aspects of the reconciliation process, including key personnel at NG to gain an understanding of the process and the internal control environment. Appears reasonable.
- 2) We statistically sampled calls from the original CDR for those dates to the payphone reports generated for PSP payment, noting that the entire sample of payphone flagged calls tested appears on the NG compensation report.

Key Control Objective #10

I'alicivs and procedures are in place, regarding controls over changes to applicable software, including persons responsible, management of (he changes, and validation of such changes, ensuring that the. changes do not negatively affect integrity of the records processed Of the results of processing such records,

Policy or Procedure

Next-G Communications has established policies and procedures regarding system changes, including specific policies regarding;

- System change approval
- \den t i f i cation of responsible person s

- System security controls

- Program security controls
- Capabilities to test changes and compare to known results

Tests Performed

We interviewed key personnel and reviewed the logic associated with generating payphone flags, as well as authentication of calls and completed calls. We reviewed documentation with regard to the above and noted that it was consistent with slated policy. Appears reasonable.